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YOUNG PEOPLE AND ATTITUDE TOWARDS PENSION PLANNING

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The National Census 2019 revealed Kenya is a very youthful country. Those aged between 18 and 35 make up approximately 75% of Kenya's population. A 2019 survey released by CPF and Infotrak Research and Consulting established that only 10% of this population are saving for retirement. This is despite the fact that anyone over the age of 18 (whether employed or self-employed) is eligible to begin saving for retirement. That being said, this article will discuss the youth's attitude toward pension planning as well as the reasons why young people should consider starting to save early for retirement.

The youth's attitudes toward pensions

Several studies have been done to examine the attitudes of young people toward retirement planning and pensions. However, this section borrows from the Ipsos MORI Social Research Institute study conducted in 2011 carried out among participants aged between 16-29.

A common perception among young people is that they are 'too young,' and thus have no pressing need to plan for retirement. They tend to regard retirement as a distant event and hardly give any thought to the kind of life they will lead during retirement. Instead, they tend to concentrate primarily on their current life and events in the near future, such as travelling, further studies, family life, and career possibilities.This is despite some awareness of negative media reports about pensions. Additionally, the majority of today's youth have a misunderstanding of pensions. They don't understand how pensions work.

Many might know that a pension provides a source of income in retirement, but they are unfamiliar with the various types of pensions and how they work.

They have little to no idea how their contributions will be invested or how the funds will be converted into monthly payments via an annuity when they retire. They are unaware of pension benefits, such as tax relief on contributions, and the fact that employers also contribute towards pensions.

There is also the perceived lack of disposable income to contribute towards a pension plan. Those with the capacity to set aside and save money often have more immediate calls on their funds. Those in low paying jobs feel that the amount of money they could afford to save in a pension is so small as to be almost pointless. They believe that if they earned more money, they would begin saving because then they wpuld have money to spare. This speaks to the fact that they may regard saving for retirement as a loss of income rather than a saving.

Lastly, some young people are skeptical of pension schemes. They are truly worried about several issues like the employer's potential

financial ruin or losing their investment after years of investing and receiving little or no compensation if this happens. In addition, young people tend to view pensions as inflexible because the funds can be accessed only after retirement. They will prefer more flexible investments because they would want to be able to access their money quickly if needed.

Why should the youth start saving early for retirement?

1. Compound Interest

While in your 20s' you might not have as much money but you have the advantage of time, a longer saving period. Small contributions made early in life will multiply over the years because of the power of compound interest. Compound interest is essentially interest on interest – you earn interest on both your initial and subsequent contributions, as well as all the interest that has accrued over time. This gives you a larger balance on which to earn future interest, resulting in high returns.

2. Less Tax

Contributions towards pension reduces your taxable income. A person earning 50,000 and contributing 3,000 to a pension plan, reduces their taxable income to 47,000. This translates to a lower tax figure compared to if the tax was calculated for the full 50,000 amount.

3. Employer Contributions

More often than not, your employer will also contribute towards your pension pot. Failing to contribute is essentiually saying no to your employer's contribution to your retirement income.

4. Investment Options

A longer time to invest allows you to take on more risk as you have more time to bounce back and make gains incase the asset your contibutions are invested in makes poor returns. A person with a few years to retirement has very few options of where to invest their contributions as they require their pension accumulation available to them in the near future.

5. Good Retirement Years

An early saving and investment strategy is most likely to deliver a comfortable retirement period. It could even allow you to consider early retirement.

Available types of pension plans

There are various types of pension schemes that you could look into:

1. Occupational pension scheme.

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2. Individual pension scheme.

This is designed for individuals in both formal and informal sectors and small groups who would want to save for their retirement independent of an employer or voluntarily. It is therefore open to all individuals.

An example is the mbao pension plan which was set up for the medium and small micro enterprises (MSMEs) sector to help members of different Jua Kali Associations to save regularly to provide a long-term and reliable income when they retire.

3. Umbrella Schemes.

This is a fund that pools the retirement investments of multiple, unrelated employers thereby reducing the average cost per member and enhancing overall returns and benefits to both the employer and employees.

Conclusion

The last thing you want to do in retirement is wonder, “Will I have enough?” Saving into a pension plan will give you access to a regular monthly income after retirement which will allow you to enjoy life after retirement.

You might want the opportunity to travel, spend time with family both near and far, and purchase luxuries.You may also want to assist your children or grandchildren in paying for their education and starting their own families. You have a better chance of meeting these financial goals if you start saving early.

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